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CC 96-45
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Outline of Remarks: "Recovery of Interstate Loop Costs"

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FEDERAL COMMUNICATIONS COMMISSION
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1. Current Assignment of Loop Costs

a. Fixed allocation (25%) to interstate

Based upon:

Book costs

Separated under Part 36

Recovery vehicles:

Interstate (25% direct allocation) -

SLC - \$3.50/6.00 charge to end user

CCL - /MOU charge to carrier (IXC)

LTS - paid by carrier (BOC/price cap)

State (75% residual) -

R1/B1 - end user

CCL - carrier

Contribution from other services

b. Variable allocation to interstate - Universal Service Fund

Based upon unseparated loop costs

Threshold: 115% above nationwide average loop costs

Scaled recovery

% in excess of threshold

of lines in study area

Recovery vehicle: Universal Service Fund

Charged to carriers (IXCs)

Based upon presubscribed lines

Fund capped and indexed

2. Modelling Considerations

a. Benchmark Cost Model -

Proxy cost use

Forward looking

Fill factors

Annual charge factors

- Local loop (NTS) issues
 - Cost identification
 - Cost allocation/attribution
 - By line
 - By study area/wire center/CBG

b. Role of a "price point"

- Cost recovery from:

- End user
 - New Universal Service Fund

- Affordability

- End user burden

- Sizing of burden (e.g., national standard, by state, by county, by CBG)

c. Examples price point/affordability relationship

- National standard (1% median income)

- Current USF - de facto affordability level

- Current SLC - de facto affordability level

3. Interconnection Order (CC Docket No. 96-98) Considerations

a. Local loop determinations

- Local loop defined as 251(c)(3) unbundled element

- Available to "any telecommunications carrier"

- Available for use in connection with "any telecommunications service"

- Cost-based pricing

- TELRIC, not embedded cost

- "Reasonable" contribution to joint and common costs

- Flat-rated (no usage sensitive pricing)

- No SLC charged for unbundled element

- Subsumed in TELRIC pricing

- CLEC not required to collect; ILEC not entitled to recover

- (Compare to resale provisions)

- Unitary control over physical loop established

b. Access charge determinations

- Carrier Common Line (CCL) to be terminated NLT 30 June 97

- Jurisdictional barriers penetrated

- CCL generally abolished for both interstate and intrastate

- CCL provisionally retained for intrastate where directly allied with state universal service

4. Regulatory Issues

a. Jurisdictional Implications

- Historical legal and regulatory barriers are superseded
 - Unseparated loop costs used in TELRIC costing
 - CCL abolished for interstate and intrastate jurisdictions
 - SLC (25% fixed interstate allocation) functionally superseded
- Smith issues raised
 - Has Congress changed directly?
 - Are separations no longer required in aid of exercise of jurisdiction?
- SLC functionally superseded over time
 - End user no longer required to pay as separate price component of CLEC rate
 - CLEC not required to remit to ILEC (compare to resale)
 - Results in market pressure for:
 - ILEC price restructuring
 - Facilities competition in local loop

b. Pricing Implications

- Loop being priced to all telecommunications carrier -
 - At TELRIC (per FCC)
 - For all services, state and interstate
- MOU charges superseded - loops are flat-rating; minute-is-a-minute does not apply (NTS)
- Carrier charges are terminated
- SLC not being charged
- Results in market pressure for ILEC repricing over time

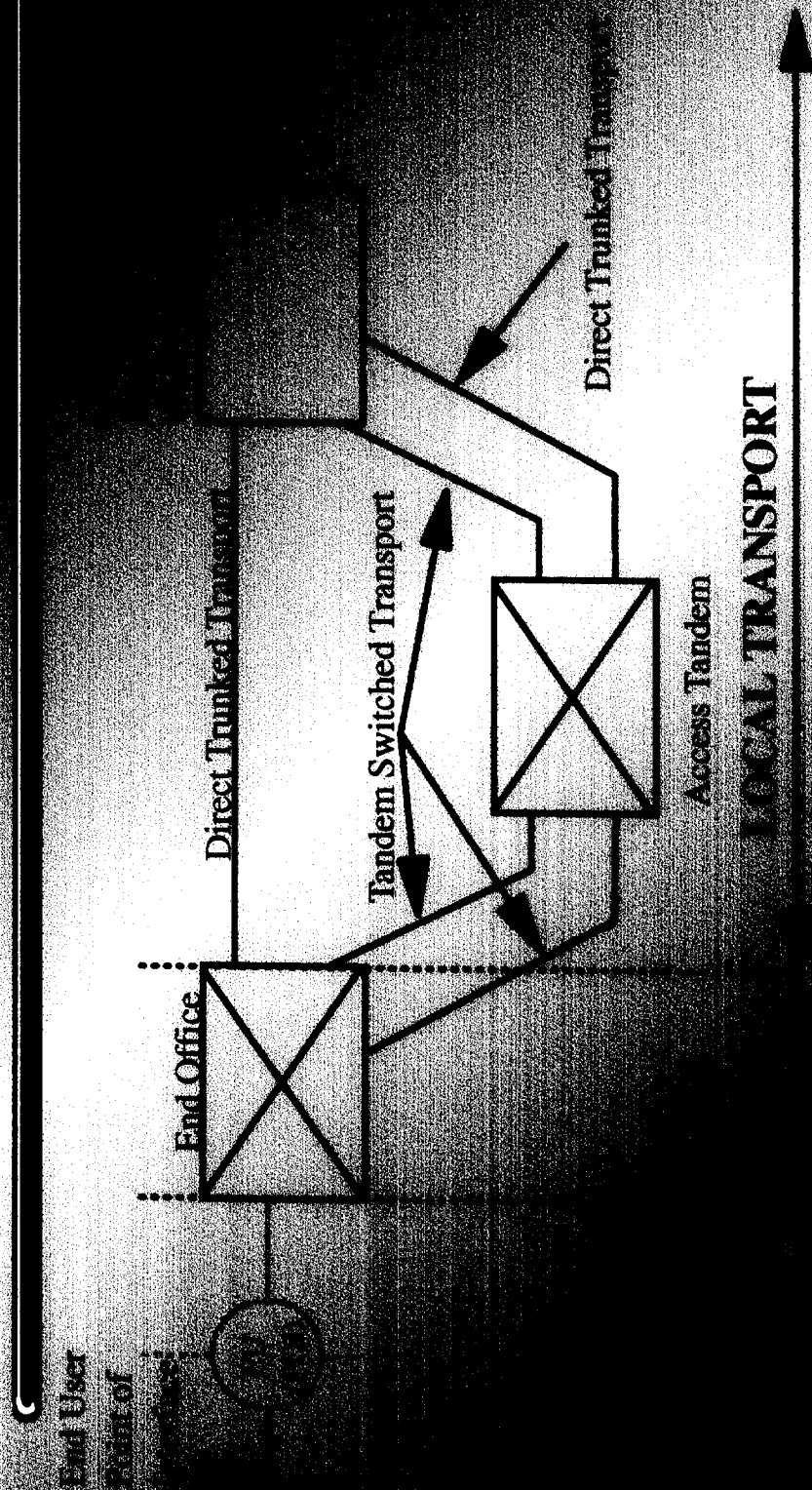
c. Cost Recovery Implications

- Abolition of states ability to impose CCL
- Inclusion of vertical services as unbundled switching elements (TELRIC-based costing) limits as source of future contributions
- Interpretation of 252 and 254 limits state-sponsored alternative structures (e.g., "play or pay")
- Residual state cost recovery structures become limited
 - End user charges
 - Continuing purpose of SLC?
 - State universal service programs
- Pressure for increased cost-recovery of local loop directly from end-user
 - Avoidance of implicit subsidies
 - Promotion of facilities competition in local loop
 - Restriction of state alternatives

5. Specific Recommendations

- a. Recognize the Congressionally-mandated distinction between urban and rural consumer needs and devote separate attention to fashioning rural universal service plan;
- b. Reform but retain existing Universal Service Fund mechanism for rural carriers;
- c. Initiate an impartial study of cost models, with goal of developing a model which meets Congressional requirements for rural service;
- d. Implement and monitor any appropriate utilization of cost models for rural service areas over a suitable period transition period.

A. Local



B. Local Exchange

Subscriber Rate

Exchange Rates

Long Term Rates

Long Term Programs

Subscriber

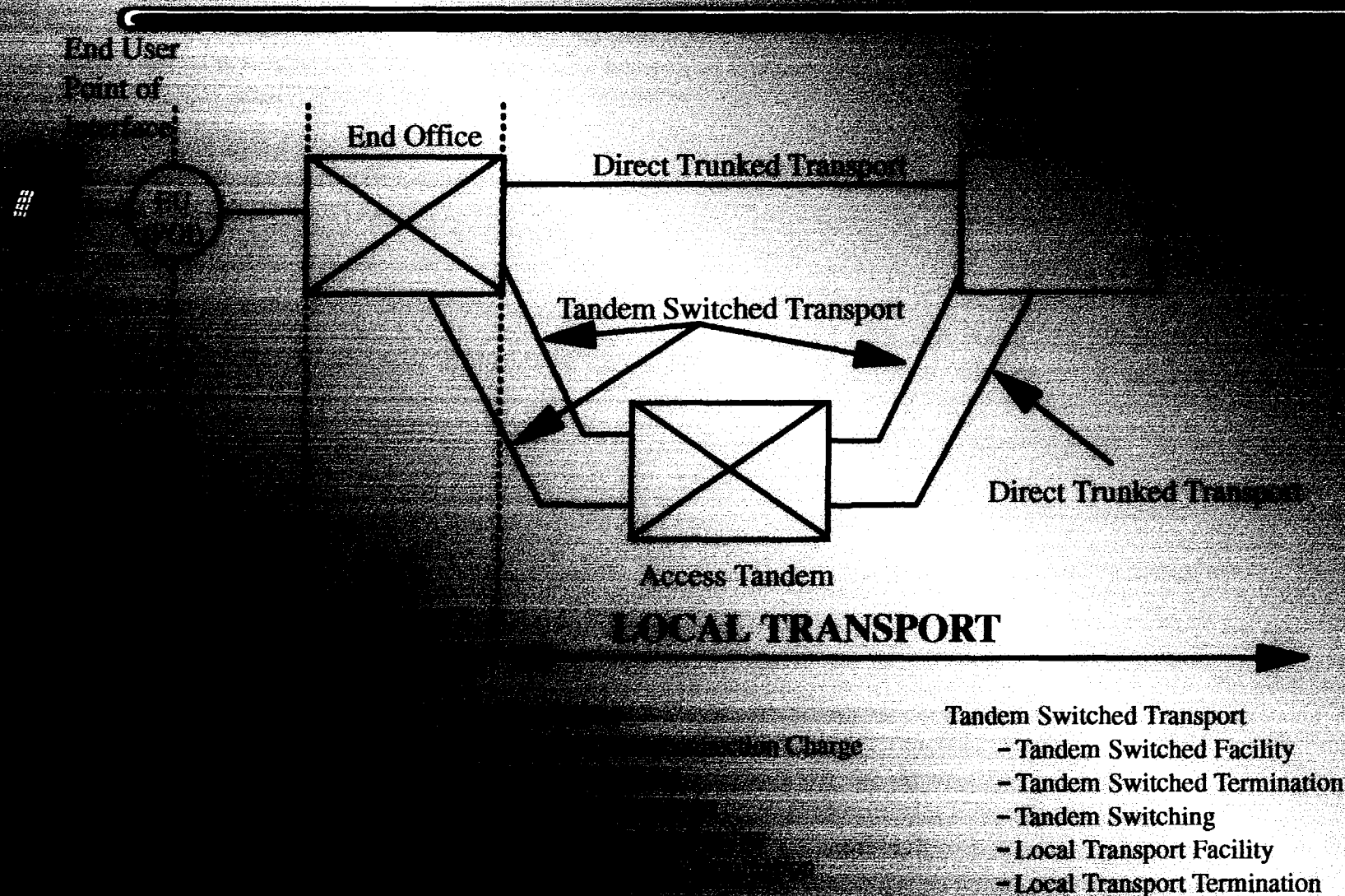
Carrier

Long Term

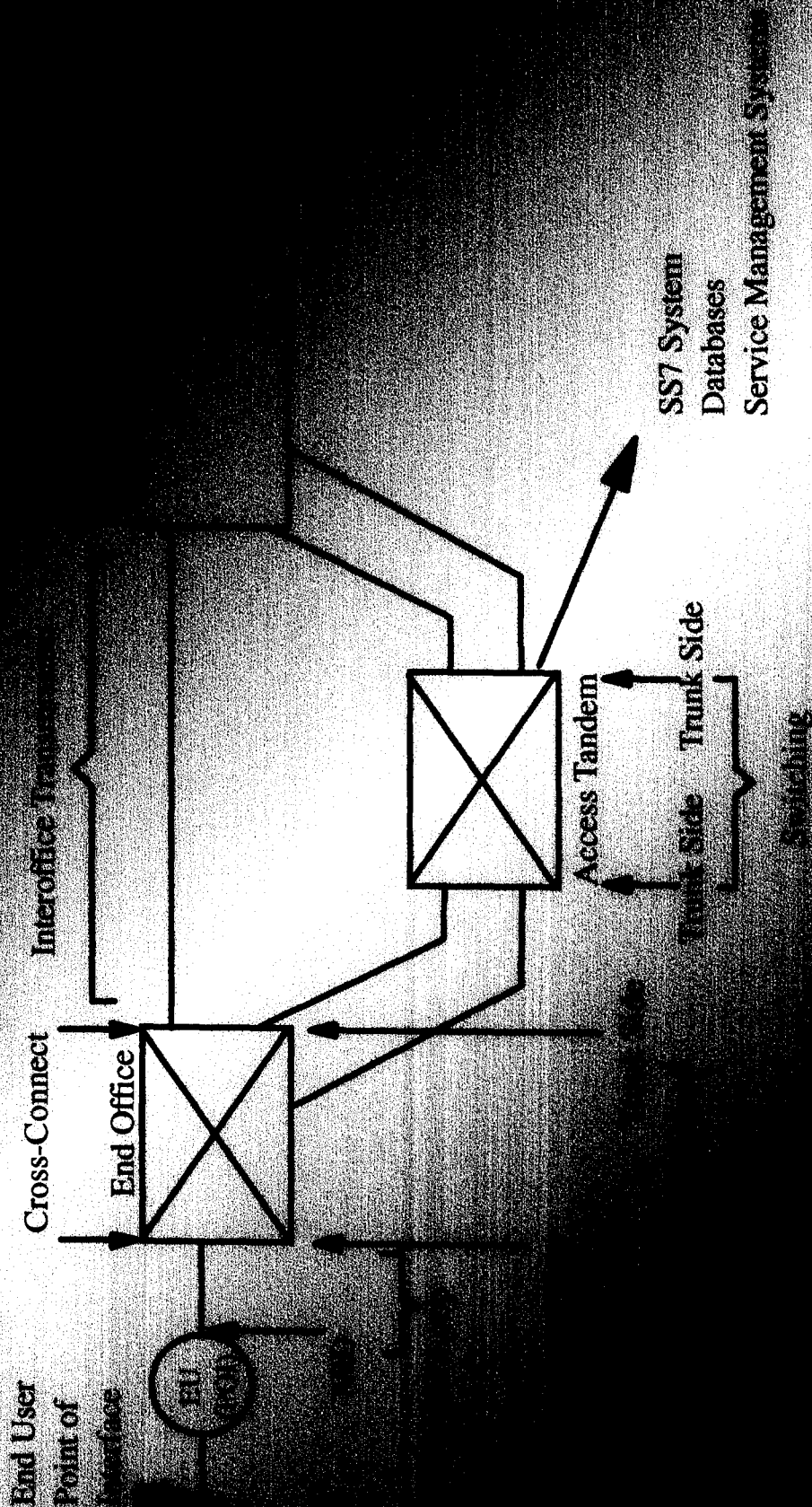


Universal Service Fund

C. Access



D. Unbundled Elements



E. Benchmark

At \$16:

(USF_H)

(\$0)

= \$30

\$4

Interstate

\$7.50

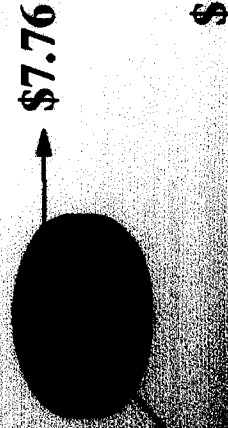
Interstate

\$22.50 Intrastate

F. Derived Price



(NACL - \$ 248.29)



Current SLC